CHAPTER: 6

FINDING, SUGGESTIONS AND CONCLUSION

6.1 INTRODUCTION:

The Indian banking industry has come from a long way from being a sleepy business institution to a highly proactive and dynamic entity. The banking system is one of the few institutions that impinge on economy and affect its performances better or worse. Banking Sector being the heart line of the financial market, their up gradation and financial strength is more vital for an efficient financial system. Banks play a very crucial and dynamic role in the development of economic life. They are important constituent of the money market and their demand deposits serve as money in the modern community. They have control over a considerable part of the stock of money. Banks are the pivots of modern commerce. Industrial innovations and business expansions become possible through finance provided by banks. Banks mobilize the dormant capital of the country for productivity purposes.

Now, the Indian banking industry is going through a period of intense change, where global a trends are affecting the banking business increasing competition, liberalization, rising customer expectations, shrinking spreads, increasing disintermediation, competitive prizing and possibilities macro-volatility. Profitability, productivity and financial efficiency have, as a result become critical objective to be aimed at. In today’s markets, credit risk along with market risk and operational risk are the real challenges before banks. As an effect of liberalization, privatization and globalization policy there has not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country has also changed significantly. In view of the fact that the public sector banks that have been operating in an extremely protected economic environment and may lose out in the wave of competition from old and new private sector banks in India. There is a competition between Public Sector
Banks and Private Sector Banks regarding the productivity and profitability. Therefore, it is a keen need to study this matter.

This chapter covered emerging conclusion of the study based on analysis carried out and puts forward suggestions on the basis of the findings of the study. It point out the variations if any from the literature.

6.2 FINDINGS:

The present analytical study related to analysis of labour productivity, branch productivity, capital productivity and profitability of Selected Public Sector and Private Sector banking for the period of 5 years (2005-'06 to 2009-'10). Major findings on the basis of the study are as under:

CHAPTER 1: INTRODUCTION

1.1 The world has become a global market. The impact of globalization, privatization and liberalization has totally changed the style of banking sector in India. Banks are essential instruments of accelerated growth in a developing economy. Banking system plays a very important role in the economic life of the nation. The goal of every bank in this modern era should be the customer's satisfactions. It is necessary to examine the extent to which the banks have moved towards their goal. The present study analyses in detail the productivity and profitability of Public Sector Banks and Private Sector Banks comparatively for the period of 5 years (2005-'06 to 2009-'10).

1.2 Banking sector reforms have increased the productivity profitability, and efficiency of banks. The challenges for banks is how to manage with training margins while at the same time working to improve productivity which remains low in relation to global standards. The Indian banking system faces several difficult challenges. There is a competition between Public Sector Banks and Private Sector Banks regarding the productivity. The importance of
productivity concept has been felt everywhere. So it is a keen need to study this matter.

1.3 Computerization of banking has received high importance in recent years due to technological advancement that are taking place in the financial systems world over. Due to market competition in Indian banking industry, the pattern of banking business is changing phenomenally. Moreover banks have to provide a world class services to the customer to their door. Due to this type of quality services and facilities, income is increasing day to day.

1.4 The global banking industry, one of the most important and profitable industries of the world economy, has witnessed innumerable trends. The global banking industry has been undergoing deep transformation. The changes staring at the face of bankers all relate to the fundamental way of banking--which is undergoing a rapid transformation in the world of today.

1.5 Banks are essential instruments of accelerated growth in a developing economy. Banking system plays a very important role in the economic life of the nation. The health of the economy is closely related to the soundness of its banking is now an essential part of our economic system. Banks have control over a major part of the supply of money in circulation. It is a fact that in order to judge the financial maturity, the size of bank assets of the economy plays an active role. Banking system occupies an important position in an economy. Indian banking industry, the backbone of the country economy, has always played a key role in prevention the economic catastrophe from reaching terrible volume in the country. Banking is really the mirror of economic growth of the country.

1.6 The opportunity areas for the Indian banks, if pursued with caution and confidence, can take us a step ahead in global competitiveness. The globalization has exposed the global competition. This is a great challenges as well as an opportunity. Information Technology innovations in the last few years have changed the landscape of banks in India. Today, IT seems to be the prime mover of all banking transactions. The impact of globalization
becomes challenges for the domestic enterprises as they are bound to compete with global players.

1.7 Productivity is an operational ratio which can be easily calculated and compared. Productivity ratio is ratio of output of wealth produced to input of resources used in the process. Productivity is a vital indicator of economic performance. The ongoing reforms in the banking sector, with their thrust on transparency, efficiency and profitability, have forced the Indian banking sector to adopt suitable strategies with focus on productivity, profitability, competitiveness, and sustainability. Liberalization and financial sector reforms during the last one decade have brought the issue of productivity and profitability of banks into the limelight. Public sector banks have not been as profitable as the other banks primarily because of two reasons--Low Productivity and High Burden ratio. Indian banks especially the public sector banks and the old private sector banks are lagging far behind their competitors in terms of both productivity and profitability with the exception of the State bank of India and its associates. The other public sector banks and old private sector banks need to go for the major transformation program for increase their productivity and profitability.

1.8 Globalization of trade, commerce, deregulation and free movement of capital across borders has speeded up the growth of international banking in the last three decades. Entry into more complex and more costly modes of internationalization requires higher productivity, estimated cut-off values in our ordered profit model are significantly increasing, and the correction term incorporating this pecking order is highly significant on the intensive margin. Hence, more productive banks are more likely to engage internationally than less productive banks, and they hold more international assets. While international banking shares similarities with the internationalization of nonfinancial firms in terms of the importance of productivity and gravity, it is also shaped by country-level regulatory factors and by risk considerations.
1.9 It is necessary to examine the extent to which the banks have moved towards their goal. Now-a-days in India, banking sector plays a very important role in the growth of Indian economy. During the post reform period, because of liberalization, privatization and globalization, Indian banking sector is facing some problems and challenges. In this highly competition environment, there is a need to evaluate the productivity of Indian banking to examine their strengths and weaknesses so that appropriate strategies must be made to remove the weakness and make them competitive globally. The importance of productivity concept has been felt everywhere. There is a competition between Public Sector Banks and Private Sector Banks regarding the productivity and profitability. Due to the magnificent contribution of productivity on progress I have been attracted by this topic and selected for the research study.

1.10 This study makes a clear picture of Public Sector and Private Sector Banks related to the productivity. It is expected the study of this topic would contribute in clarifying the all concepts of labour productivity, branch productivity and capital productivity very well. It is necessary to examine the extent to which the banks have moved towards their goal. The beneficiary from the study of this topic would be first of all self-researcher, academicians, practicing managers, prospects researchers and the banks. If these parties refer this research study in future may take advantage of the finding and suggestions. Academician, practicing managers and research students may take benefits for academic purpose and on the jobs. The banks if feel may implement the suggestions for improvement of performance and productivity of manpower, branch and capital level. It can be said the benefits would be multidimensional for above mentioned parties. The analysis of individual banks will further be of assistance to the management of the banks for planning financial strategies for attaining financial performance and exploring further opportunities. The productivity is considered as an important parameter to judge the performance and financial health of banks.
1.11 In Chapter 2, this chapter covered Review of the literatures, Chapter 3, this chapter covered Research Methodology of the study, Chapter 4, this chapter covered introduction of Indian banking industry, Chapter 5, this chapter covered an analytical study of productivity and profitability of Public Sector Banks and Private Sector Banks, Finally, Chapter 6 covered emerging conclusion of the study based on analysis carried out. It point out the variations if any from the literature.

1.12 The purpose of the present study has been to understand the productivity of Public Sector Banks and Private Sector Banks. The key to success in the competitive environment is increased productivity and profitability. This study makes a clear picture of Public Sector and Private Sector Banks related to the productivity. The present analytical study related to critical evaluation of Public Sector and Private Sector banking. It also includes analysis of capital productivity and labour productivity. The present study analyses in detail the financial performance of Private Sector Banks and Public Sector Banks comparatively for the period of 5 years (2005-'06 to 2009-'10).

CHAPTER 2: REVIEW OF THE LITERATURE:

2.1 The review of literatures, albeit in brief, is likely to provide a bird’s eye view of the work done in India and abroad relating, directly or indirectly, to the subject-matter of the present study. A number of studies were conducted to compare different type of banks operating in India based on different performance/ efficiency criteria/parameters from time to time.

2.2 After nationalization of banks, there was a growing concern on the deteriorating of banking sector’s efficiency in several spheres. An academic study on the performance of the nationalized banking sector in India is very important and pertinent in the context of its structural existence.

2.3 Before taking up such an exercise, an attempt is made in this section to present a review of the available studies in the relevant area of banking.
Organized or formal research in banking and related areas is of recent origin in India. The research studies conducted in the field of banking in India and abroad relate mostly to institutional, functional and developmental activities of banks. A number of studies have been conducted in India which examined the financial performance of the commercial banks.

2.4 The RBI constituted a number of committees, notably Tandon committee (1975), Chakraborty committee (1986) and Narsimham committee (1991) which inter-alia examined various parameters of efficiency and given a number of suggestions to improve the efficiency of the bank in India.

2.5 Indian private bank productivity is much higher than that of public banks, and that both old and new Indian private banks have much higher productivity than the public banks.

2.6 Profitability of the Public Sector Banks did improve in comparison to the Private and Foreign Banks, but they have lagged behind in their ability to attract deposits at favorable interest rates and have been slow in technology up gradation and improving staffing and employment practices, which may have negative implications on their longer-tem profitability.

2.7 The performance of the modern banks (Foreign and New Private Sector Banks) was much superior to the traditional banks (Public Sector and Old Private Sector Banks).

2.8 The Indian banking industry experienced sub sustained productivity growth, driver mainly by technological progress.

2.9 The competitive is increased productivity and profitability. Indian banks especially the public sector banks and the old private sector banks are lagging far behind their competitors in terms of both productivity and profitability with the exception of the State bank of India and its associate. The other public sector banks and old private sector banks need to go for the major transformation program for increase their productivity and profitability.
2.10 Profitability and productivity depends on various factors like reduction of costs, recovery work reorganization, computerization etc.

**CHAPTER 3: RESEARCH METHODOLOGY:**

3.1 Research methodology is a way to solve the research problem systematically. It may be understood as a science of studying how research is done scientifically. Research Methodology includes the assumptions and values, which is useful for interpreting data and reaching to conclusions.

3.2 The present analytical study is an attempt to study the productivity measurement for selected unit of Public Sector Banks and Private Sector Banks for particular period. The purpose of this analytical study is, thus to make an in-depth study of what the Public Sector Banks and Private Sector Banks in India have done during the period of last five years (2005-06 to 2009-10).

3.3 The present analytical study related to critical evaluation of Public Sector and Private Sector banking. It also includes analysis of labour productivity, branch productivity and capital productivity. The present study analyses in detail the financial performance of Public Sector Banks and Private Sector Banks comparatively for the period of 5 years.

3.4 Objectives of the Study: To evaluate the overall productivity and profitability of Public Sector Banks and Private Sector Banks and to suggest the remedial measures for overall development of Public Sector Banks and Private Sector Banks.

3.5 There is a competition between Public Sector Banks and Private Sector Banks regarding the productivity. Therefore, it is a keen need to study this matter.

3.6 The study mainly on bases of secondary data obtained from the annual reports of selected Public Sector Banks and Private Sector Banks. The
population of the study consists of all type of Indian banking industries in Public Sector Banks and Private Sector Banks.

3.7 The researcher takes a sample of 14 banks (7 Public Sector Banks & 7 Private Sector Banks) with the help of random sampling method. For the present study the researcher, formulate null hypothesis. Two types of tools and techniques of analysis have been used i.e. accounting techniques and Statistical techniques. The researcher pick-up the Simple statistical techniques, such as mean and one-way ANOVA test, for testing hypothesis relating to various variables of productivity, profitability and financial efficiency of various banks under the study.

3.8 Limitations of the Study: This study is related to selected Public Sector Banks and Private Sector Banks only. The secondary data, which used for this study is based on annual reports of the bank. The quality of this research depends on quality and reliability of data published in annual reports of banks. There are different methods to measure the productivity and profitability of the banks. View of expert can be different in this matter from one another.

3.9 Chapterisation of the Study:


Chapter-II: Review of the literature: This chapter covered survey of some studies relating to financial analysis of Indian banking sector conducted in the past.

Chapter-III: Research Methodology: This chapter covered Problem of the Study, Significance of the study, Objectives of the Study, Period of the Study, Universe of the Study, Selection of Sample Units, Scope of the Study, Type of
the Study, Data Collection, Hypotheses for the Study, Tools & Techniques for Analysis, Limitation of the Study and Chapterisation of the Study etc.


Chapter-V: Productivity of Indian Banking Industry: This chapter covered an analytical study of Labour Productivity, Branch Productivity, Capital Productivity and Profitability of Public Sector Banks and Private Sector Banks, with the help of Accounting Techniques and Statistical Tools.

Chapter-VI: Finding, Suggestions and Conclusion: This chapter covered major Finding, Suggestions and emerging conclusion of the study based on analysis carried out. It point out the variations if any from the literature.

**CHAPTER 4: INDIAN BANKING INDUSTRY:**

4.1 Globalization, deregulation and advances in information technology during last 14 years have brought about significant changes in the operating environment for banks operating in India. During this period a slew of financial sector reform measures aiming at increasing operational efficiency of the banking sector as a whole, as well as of individual institutions are witnessed. Policy makers have clearly recognized that inefficiency is the main factor contributing to the high cost of banking services in India. In the process, a number of private sector banks (classified as new private sector banks) were allowed to operate with latest technology and fully automated systems akin to foreign banks.

4.2 A banking company is defined a company which transacts the business of banking in India. The Banking Regulation Act 1949 defines the business of
banking by stating the essential functions of a banker. It also states the various other businesses a banking company may be engaged in and prohibits certain businesses to be preformed by it. The term ‘Banking’ is defined as “accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, and order of otherwise”.

4.3 Indian banks have a chequered history. From the Dark Ages to the present day Digital age, journey of mankind has come a long way. The first deals with the history part since the dawn of banking system in India. Since independence, India had a fairly well developed commercial banking system. Three distinct phases of the development of the Indian commercial banking can be identified as follows: 154 The first phase covers the period from 1786 to 1969 and the second phase from 1970 to 1991. These two periods constitute the past. Indian government headed by Narsimha Rao of congress party liberalizes the Indian economy. The period of banking reforms beginning with 1992 and till the year 2010 may be regarded as the present or the current phase for the purpose of this analysis. Two major phases are distinguished in the course of development of private banking in India: early and later historical phase. Liberalization and financial sector reforms during the last one decade have brought the issue of productivity and profitability of banks into the limelight. Technology has opened up new avenues in banking for discharging the same functions in a cost effective manner e.g. 24 hour banking, telebanking, internet banking, E-banking.

4.4 The banking system in India comprises the Reserve Bank of India (RBI), commercial banks, regional rural banks and the co-operative banks. In the recent past, private non-banking finance companies also have been active in

154 Personal Website of R. Kannan, Learning Circle - Banking Theory and Practice - History and Evolution of Indian Banking System.
the financial system, and are being regulated by the RBI. The system is expected to continue to be sensitive to the growth and development needs of all the segments of the society. In India there are basically three types of banks under the control of Reserve Bank of India, they are, public sector banks in which government has stakes, private sector banks which are privately owned companies with public listing of shares and a scheduled bank category.

4.5 The country has accepted economic planning and undertook the responsibility to generate mass scale employment opportunities and alleviate poverty. At the time of nationalization the socio-economic objectives were explicitly laid down and the banks were asked to contribute to the maximum possible extent towards economic and social development of the country. Nationalization of Banks began with the passing of the Reserve Bank Act, 1948, In order to make the Reserve Bank of India more powerful, the Indian Government nationalized it on 1st January, 1949. The second major attempt at nationalization of banking in India was made in 1st July, 1955 which came to be known as the State Bank of India. Along with it other 7 banks were converted as its associate banks which from what are named as the State Bank Group. The third major attempt was made when 14 leading commercial banks, with deposits exceeding Rs.50 crores each, were nationalized on 19th July, 1969. On the 15th April, 1980, six more banks in the private sector were nationalized.

4.6 From time to time, banking system requires some dose to improve its performance to comply with the required standards. Banking Sector Reforms have changed the face of Indian banking industry. Banking sector reforms were initiated as part of the overall structural reforms aimed at improving the productivity and efficiency of the economy. The first phase of banking sector reforms, termed as “Curative” measures, came up with its main objective to improve the operational efficiency of banks. As the process of second banking sector reforms is going on since 1999, it has shown improvement in the performance of banks and on the other side, many change have come
occurred due to the entry of banks in the global market. These reforms have had major impact on overall stability and efficiency of the banking system in India.

4.7 The Government of India appointed a high level committee under the chairmanship of Mr. M. Narsimhan in November 1991 for making recommendations on all relevant aspects, viz., structure, organization, functions and supervisory arrangements of the financial system. The report very accurately summarized the objectives of Nationalization. The committee strongly recommended that supervision should be based on adhering to prudential norms and regulations, internal audit and inspection rather than excessive control over administrative and other aspects of bank organization and functioning.

4.8 One of the most significant measures suggested by the Narasimham committee to revitalize the banking industry is opening up the banking sector to new private sector banks. Ten New Private Sector Banks have been established mainly by the financial institutions such as Axis, ICICI, IDBI, HDFC, IndusInd, Kotak Mahindra, DCB, CBP and Yes Bank. One Such Bank – Times Bank was subsequently merged with another new bank- HDFC Bank.

4.9 Indian banking in the new millennium reflects the changes in the Indian banking industry after the implementation of the reforms under second Narasimham Committee Report. In the new millennium, banks should strive to achieve significant increases in their productivity, efficiency, and profitability. Today the various products offered by banks are all made possible only because of technology.

4.10 Commercial banks play dominant role in the growth of Indian economy and accounts for more than 90 percent of the total assets of the banking sector. A commercial bank is a financial institution whose main business is to accept deposits from the public and to give loans to those who require it for short periods. They cater to the needs of trade, commerce, industries,
agriculture, small business, transport and other activities with a wide network of branches throughout the country. The general functions of a commercial bank may be summarized as follows: - Receiving of Deposits, Making loans and Advances, Agency Services, Information and other Services and Miscellaneous Services.

4.11 The performance of several public sector banks (PSBs) has been so poor that many have called for a complete overhaul of these banks and privatization as a solution. Performance evaluation of banks, particularly in an economy that is dominated by public sector banks that are not driven purely by profit motive, is not a simple task. Profitability as the sole measure of performance is disputed by many and several measures of efficiency, some with less than unequivocal support from experts, have been used in the literature. The 21st century has brought enormous scope for Indian banking sector. In any growing economy, banks play the most vital role in providing the capital for growth and consumption.

4.12 Indian banks have compared favorably on growth, asset quality and profitability with other regional banks over the last few years. Most studies find that the reforms have had a positive impact on profitability and efficiency and private banks and new entrants have flourished. There have been steady positive growth rates in total assets and total loans and this increase is against a backdrop of improved competition. This trend held throughout the nineties and clearly captures changes in regulation that liberalized entry and operations of private banks. With the collective efforts of the Government, RBI, Bank officials and customers, the Indian Banking Sector can leads to progress and prosperity compared to the rest of the world.

CHAPTER: 5 PRODUCTIVITY OF INDIAN BANKING INDUSTRY:

5.1 The present analytical study related to critical evaluation the productivity and profitability of selected public sector and private sector banking. It also includes analysis of labour productivity, branch productivity and capital
productivity. Productivity is affected by man power, mechanization, system and the procedures, costing of operations, customer services and various external aspects. Analysis and Interpretation of data is the heart of any research process. After collection of the data, it should be analyzed and interpret according to the research plan. The present study has been used mainly on data from secondary sources. Mean, various ratios and student –‘F’ test have been used for analysis, interpretation and testing the hypothesis.

5.2 As the productivity means the ratio of output to input for a specific production system. The study has focused on how public sector banks and private sector banks can improve productivity by managing some of the important elements related to capital, technology, process, organization issues, and labour in a better way. Productivity can be measured by many ways like: Productivity of Branches, Productivity of Capital, Productivity of Labour, Productivity of Raw Material and Profitability. Productivity helps firms, industries and nations to achieve sustainable competitive advantage.

5.3 Profitability depicts the relationship of the absolute amount of profit with various other factors. Profitability is a relative concept, which is quite useful in decision-making. Profitability indicates earning capacity of the banks. The present trend of low and declining profitability can be arrested and reversed if the remedial measures are tried in right direction to ease the pressure on profitability. Profitability ratios are the most important and appropriate indicators for the evaluation of the financial performance of a bank.

5.4 The study uses Ratio analysis to compare productivity of selected public sector banks and private sector banks. Productivity analysis is very helpful parameter to measure the financial performance of any bank. To analysis the productivity of Public Sector Banks and Private Sector Banks we have considered labour productivity branch productivity and capital productivity during the period of 2005-'06 to 2009-'10.

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A] Labour Productivity:

In our study, we have used Deposit per employee, Advances per employee, Business per employee, Net Profit per employee and Working Fund per Employee to measure the labour productivity ratio of selected banks. Public Sector Banks have more number of employees than the Private Sector Banks, but when we compare per employee bank deposit, advances and business ratios again the ratio for the Public Sector Banks are lower placed to Private Sector Banks.

Average Productivity per Employee: This ratio is an indicator of degree of employee's productivity of banks. A high ratio indicates better productivity of employees in banks and low ratio indicates lower productivity.

TABLE –6.1: Average Productivity per Employee (Rs. in Crore)

<table>
<thead>
<tr>
<th>BANKS</th>
<th>RATIO</th>
<th>Deposit per Employee</th>
<th>Advances per Employee</th>
<th>Business per Employee</th>
<th>Net Profit per Employee</th>
<th>Working Fund per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>PUBLIC SECTOR BANKS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANK OF BARODA</td>
<td>4.25</td>
<td>3.02</td>
<td>7.26</td>
<td>0.0464</td>
<td>4.97</td>
<td></td>
</tr>
<tr>
<td>BANK OF INDIA</td>
<td>3.86</td>
<td>2.84</td>
<td>6.70</td>
<td>0.0424</td>
<td>4.60</td>
<td></td>
</tr>
<tr>
<td>CENTRAL BANK OF INDIA</td>
<td>2.94</td>
<td>1.88</td>
<td>4.43</td>
<td>0.0157</td>
<td>3.30</td>
<td></td>
</tr>
<tr>
<td>DENA BANK</td>
<td>3.54</td>
<td>2.36</td>
<td>5.90</td>
<td>0.0313</td>
<td>3.99</td>
<td></td>
</tr>
<tr>
<td>PUNJAB NATIONAL BANK</td>
<td>3.08</td>
<td>2.20</td>
<td>5.28</td>
<td>0.0419</td>
<td>3.65</td>
<td></td>
</tr>
<tr>
<td>UNION BANK OF INDIA</td>
<td>4.28</td>
<td>3.04</td>
<td>7.17</td>
<td>0.0501</td>
<td>5.03</td>
<td></td>
</tr>
<tr>
<td>STATE BANK OF INDIA</td>
<td>2.95</td>
<td>2.23</td>
<td>5.06</td>
<td>0.0346</td>
<td>3.87</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>3.56</td>
<td>2.51</td>
<td>5.97</td>
<td>0.0375</td>
<td>4.20</td>
<td></td>
</tr>
<tr>
<td>PRIVATE SECTOR BANKS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AXIS BANK</td>
<td>6.01</td>
<td>3.98</td>
<td>9.99</td>
<td>0.2242</td>
<td>7.57</td>
<td></td>
</tr>
<tr>
<td>DEVE. CREDIT BANK</td>
<td>2.64</td>
<td>1.76</td>
<td>4.38</td>
<td>-0.0285</td>
<td>3.25</td>
<td></td>
</tr>
<tr>
<td>HDFC BANK</td>
<td>3.29</td>
<td>2.22</td>
<td>5.50</td>
<td>0.0598</td>
<td>4.33</td>
<td></td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>6.40</td>
<td>5.82</td>
<td>12.22</td>
<td>0.1058</td>
<td>10.46</td>
<td></td>
</tr>
<tr>
<td>INDUSIND BANK</td>
<td>6.76</td>
<td>4.52</td>
<td>11.28</td>
<td>0.0355</td>
<td>8.25</td>
<td></td>
</tr>
<tr>
<td>KOTAK MAHINDRA BANK</td>
<td>2.06</td>
<td>1.98</td>
<td>4.04</td>
<td>0.0378</td>
<td>3.48</td>
<td></td>
</tr>
<tr>
<td>YES BANK</td>
<td>5.42</td>
<td>4.27</td>
<td>9.69</td>
<td>0.0923</td>
<td>7.43</td>
<td></td>
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<tr>
<td>Average</td>
<td>4.65</td>
<td>3.51</td>
<td>8.16</td>
<td>0.0753</td>
<td>6.40</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Computed from Data Collected from Annual Report of Respective Banks 2005-06 to 2009-10).

The above table no. 6.1 shows various average productivity ratios for selected banks during study period. Looking into the Average Labour Productivity per Employee ratio [Table No. 6.1] we can see that overall performance of public sector banks is very poor. We can see that overall deposit per employee is more than 1.31 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Deposit
per employee for public sector banks shows an average of Rs. 3.56 crores. The ratio indicates the weak performance of CBI, PNB and SBI with below average. The average of deposit per employee by UBI shows very good with Rs. 4.28 crores among public sector banks. The performance in private sector banks regarding deposit per employee shows excellent results during this period. The average of deposit per employee in all private sector banks was Rs. 4.65 crores. The average of IndusInd bank was shows very good with Rs. 6.76 crores deposit per employee. The performance of Kotak Mahindra bank and DCB was very poor in comparison to other selected private sector banks. Thus, the productivity related to deposit per employee was not remarkable in public sector banks as compared to private sector banks under study.

Average advances per employee is more than 1.40 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. The average of public sector banks was very poor with Rs. 2.51 crores advances per employee while the average of private sector banks was excellent with Rs. 3.51 crores advances per employee. In public sector banks CBI, PNB and SBI were below average and in private sector bank DCB, HDFC and Kotak Mahindra Bank Limited were below average. The average of ICICI bank was shows very good with Rs. 5.82 crores advances per employee. The Axis Bank has maintained always above Rs. 5.00 crores during study period.

Average business (Deposit + Advances) per employee is more than 1.37 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Business per employee for public sector banks shows an average of Rs. 5.97 crores. The ratio indicates the weak performance of CBI, PNB and SBI with below average. The average of business per employee by BOB shows very good with Rs. 7.26 crores among public sector banks. The performance in private sector banks regarding business per employee shows excellent results during this period. The average of business per employee in all private sector banks was Rs. 8.16 crores. The average of ICICI bank was shows very good with Rs. 12.22
crores business per employee. The performance of Kotak Mahindra bank, DCB and HDFC was very poor in comparison to other selected private sector banks. Thus, the productivity related to business per employee was not remarkable in public sector banks as compared to private sector banks under study.

The ratio of productivity by net profit per employee shows how efficiently employee working in the market. With the analysis of productivity by net profit, the performance of public sector banks was not remarkable because the average productivity by net profit per employee of public sector banks was only Rs. 0.0375 crores per employee. While the average of private sector banks unit was Rs. 0.0753 crores per employee which was more than two time higher than the public sector banks. In case of public sector banks, CBI was very poor in relation to this ratio and BOB, BOI, PNB and UBI were on and above the average. In case of private sector banks, DCB suffered heavy losses during the year 2005-06, 2008-'09 and 2009-'10 showing a dangerous situation for the survival in the year to come. The average of ICICI bank was shows very good with Rs. 0.1058 crores by net profit per employee.

The average of productivity by working funds per employee in public sector banks was Rs. 4.20 crores and the average of private sector banks under study was Rs. 6.40 crores productivity by working funds per employee. Average working fund per employee ratio is more than 1.52 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. The ICICI Bank was at the highest with Rs. 10.46 crores among all selected banks under study, they were very good to this productivity as compared to public sector banks. It showed that through more working funds and contingent liability and less staff strength the bank to earned more productivity per employee. Thus, the Overall performance related to Labour Productivity of Public Sector Banks is very poor compared to the Private Sector Banks.
B] Branch Productivity:

The parameters like deposit per branch, advances per branch, business per branch, net profit per branch and working fund per branch are used to evaluate the productivity of selected Public Sector Banks and Private Sector Banks. It is true that the Public Sector Banks have a large network of branches and have their presence in the rural and semi-urban areas. The Private Sector Banks do not have branches in both rural and semi-urban areas; but when we compare average deposit per branch, advances per branch, business ratios per branch, net profit per branch and working fund per branch (Table-6.2) again the ratios for the Public Sector Banks are much lower placed to Private Sector Banks. A high ratio indicates better productivity and a low ratio indicates lower productivity.

Average Productivity per Branch: This ratio is an indicator of the degree of branch’s productivity of banks. A high ratio indicates better productivity of branch in banks and a low ratio indicates lower productivity.

### TABLE –6.2: Average Productivity per Branch (Rs. in Crore)

<table>
<thead>
<tr>
<th>BANKS</th>
<th>Deposit per branch</th>
<th>Advances per branch</th>
<th>Business per branch</th>
<th>Net Profit per branch</th>
<th>Working Fund per branch</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUBLIC SECTOR BANKS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANK OF BARODA</td>
<td>54.58</td>
<td>38.57</td>
<td>93.10</td>
<td>0.594</td>
<td>63.96</td>
</tr>
<tr>
<td>BANK OF INDIA</td>
<td>53.02</td>
<td>38.87</td>
<td>91.89</td>
<td>0.582</td>
<td>63.16</td>
</tr>
<tr>
<td>CENTRAL BANK OF INDIA</td>
<td>32.52</td>
<td>20.68</td>
<td>53.27</td>
<td>0.172</td>
<td>34.54</td>
</tr>
<tr>
<td>DENA BANK</td>
<td>30.61</td>
<td>20.41</td>
<td>51.02</td>
<td>0.270</td>
<td>34.54</td>
</tr>
<tr>
<td>PUNJAB NATIONAL BANK</td>
<td>40.92</td>
<td>29.14</td>
<td>69.95</td>
<td>0.552</td>
<td>48.56</td>
</tr>
<tr>
<td>UNION BANK OF INDIA</td>
<td>46.61</td>
<td>33.14</td>
<td>79.74</td>
<td>0.540</td>
<td>54.88</td>
</tr>
<tr>
<td>STATE BANK OF INDIA</td>
<td>54.14</td>
<td>40.81</td>
<td>94.94</td>
<td>0.632</td>
<td>70.96</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>44.63</strong></td>
<td><strong>31.66</strong></td>
<td><strong>76.27</strong></td>
<td><strong>0.478</strong></td>
<td><strong>53.25</strong></td>
</tr>
<tr>
<td><strong>PRIVATE SECTOR BANKS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AXIS BANK</td>
<td>120.32</td>
<td>80.54</td>
<td>200.87</td>
<td>1.698</td>
<td>151.17</td>
</tr>
<tr>
<td>DEVE. CREDIT BANK</td>
<td>60.60</td>
<td>39.87</td>
<td>100.08</td>
<td>-0.560</td>
<td>75.51</td>
</tr>
<tr>
<td>HDFC BANK</td>
<td>107.93</td>
<td>72.73</td>
<td>180.66</td>
<td>1.918</td>
<td>142.20</td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>205.55</td>
<td>186.80</td>
<td>394.35</td>
<td>3.302</td>
<td>331.70</td>
</tr>
<tr>
<td>INDUSIND BANK</td>
<td>113.55</td>
<td>77.75</td>
<td>191.31</td>
<td>0.716</td>
<td>140.22</td>
</tr>
<tr>
<td>KOTAK MAHINDRA BANK</td>
<td>93.21</td>
<td>89.82</td>
<td>183.04</td>
<td>1.666</td>
<td>157.59</td>
</tr>
<tr>
<td>YES BANK</td>
<td>208.97</td>
<td>166.10</td>
<td>375.07</td>
<td>3.528</td>
<td>289.23</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>130.31</strong></td>
<td><strong>101.95</strong></td>
<td><strong>232.20</strong></td>
<td><strong>1.753</strong></td>
<td><strong>183.94</strong></td>
</tr>
</tbody>
</table>

(Source: Computed from Data Collected from Annual Report of Respective Banks 2005-06 to 2009-10).
Looking into the average branch productivity per employee ratio [Table No. 6.2] we can see that overall performance of public sector banks is very poor. We can see that overall Deposit per branch is more than 2.92 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Deposit per branch for public sector banks shows an average of Rs. 44.63 crores. The ratio indicates the weak performance of Dena bank, CBI and PNB with below average. The average of deposit per branch by BOB shows very good with Rs. 54.58 crores deposit per branch among public sector banks. The performance in private sector banks regarding deposit per branch shows excellent results during this period. The average of deposit per branch in all private sector banks was Rs. 130.31 crores. The Yes Bank was at the highest with Rs. 208.97 crores among all selected banks under study. The performance of DCB was very poor in comparison to other selected private sector banks. Thus, the productivity related to deposit per branch was not remarkable in public sector banks as compared to private sector banks under study.

Average advances per branch is more than 3.22 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Advances per branch for public sector banks shows an average of Rs. 31.66 crores deposit per branch. The ratio indicates the weak performance of Dena bank, CBI and PNB with below average. The average of advances per branch by SBI shows very good with Rs. 40.81 crores advances per branch among public sector banks. The performance in private sector banks regarding advances per branch shows excellent results during this period. The average of advances per branch in all private sector banks was Rs. 101.95 crores. The ICICI bank was at the highest with Rs. 186.80 crores among all selected banks under study. The performance of DCB was very poor in comparison to other selected private sector banks. Thus, the productivity related to advances per branch was not remarkable in public sector banks as compared to private sector banks under study.
Average business (Deposit + Advances) per branch is more than 3.04 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Business per branch for public sector banks shows an average of Rs. 76.27 crores. The ratio indicates the weak performance of CBI, Dena bank and PNB with below average. The average of business per branch by BOB shows very good with Rs. 94.94 crores among public sector banks. The performance in private sector banks regarding business per branch shows excellent results during this period. The average of business per branch in all private sector banks was Rs. 232.20 crores. The average of ICICI bank was shows very good with Rs. 394.35 crores business per branch. The performance of, DCB, HDFC and Kotak Mahindra bank was very poor in comparison to other selected private sector banks. Thus, the productivity related to business per branch was not remarkable in public sector banks as compared to private sector banks under study.

The ratio of productivity by net profit per branch shows how efficiently branch working in the market. With the analysis of productivity by net profit, the performance of public sector banks was not remarkable because the average productivity by net profit per branch of public sector banks was only Rs. 0.478 crores per branch. While the average of private sector banks unit was Rs. 1.753 crores per branch which was more than three time higher than the public sector banks. In case of public sector banks, CBI and Dena bank were very poor in relation to this ratio and BOB, BOI, PNB, SBI and UBI were on and above the average. In case of private sector banks, DCB suffered heavy losses during the year 2005-06,2008-'09 and 2009-'10 showing a dangerous situation for the survival in the year to come. The average of Yes bank was shows very good with Rs. 3.528 crores by net profit per branch.

The average of productivity by working funds per branch in public sector banks was Rs. 53.25 crores and the average of private sector banks under study was Rs. 183.94 crores productivity by working funds per branch. Average working fund per branch ratio is more than 3.45 times higher in new Private Sector Banks under study as compared to Public Sector Banks under
study. The ICICI Bank was at the highest with Rs. 331.70 crores among all selected banks under study, they were very good to this productivity as compared to public sector banks. Thus, the Overall performance related to Branch Productivity of Public Sector Banks is very poor compared to the Private Sector Banks.

C] Capital Productivity:

To analyse the capital productivity of Public Sector Banks and Private Sector Banks we have considered, Interest Income per unit Capital, Interest Expenses to per unit Capital, Business per unit of Capital, Net Profit to per unit of Capital and Spread Ratio during the period of 2005-06 to 2009-10. The study uses Ratio analysis to compare average capital productivity of selected Banks.

**Average Productivity to per unit of Capital:** This ratio is an indicator of degree of capital's productivity of banks. A high ratio indicates better productivity of branch in banks and low ratio indicates lower productivity.

**TABLE –6.3: Average Productivity per unit of Capital** (Rs. in Crore)

<table>
<thead>
<tr>
<th>BANKS</th>
<th>RATIO</th>
<th>Interest income to p. u. of capital</th>
<th>Interest Expenses to p. u. of capital</th>
<th>Business to p. u. of capital</th>
<th>Net Profit to p. u. of capital</th>
<th>Spread to p. u. of capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>PUBLIC SECTOR BANKS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANK OF BARODA</td>
<td>6.38</td>
<td>3.97</td>
<td>144.52</td>
<td>0.91</td>
<td>2.41</td>
<td></td>
</tr>
<tr>
<td>BANK OF INDIA</td>
<td>6.68</td>
<td>4.35</td>
<td>145.20</td>
<td>0.90</td>
<td>2.33</td>
<td></td>
</tr>
<tr>
<td>CENTRAL BANK OF INDIA</td>
<td>6.81</td>
<td>4.70</td>
<td>145.00</td>
<td>0.46</td>
<td>2.11</td>
<td></td>
</tr>
<tr>
<td>DENA BANK</td>
<td>6.89</td>
<td>4.52</td>
<td>147.09</td>
<td>0.74</td>
<td>2.37</td>
<td></td>
</tr>
<tr>
<td>PUNJAB NATIONAL BANK</td>
<td>7.19</td>
<td>4.17</td>
<td>143.52</td>
<td>1.11</td>
<td>3.02</td>
<td></td>
</tr>
<tr>
<td>UNION BANK OF INDIA</td>
<td>7.12</td>
<td>4.64</td>
<td>144.95</td>
<td>0.97</td>
<td>2.48</td>
<td></td>
</tr>
<tr>
<td>STATE BANK OF INDIA</td>
<td>6.87</td>
<td>4.32</td>
<td>133.62</td>
<td>0.89</td>
<td>2.55</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>6.85</td>
<td>4.38</td>
<td>143.41</td>
<td>0.85</td>
<td>2.47</td>
<td></td>
</tr>
<tr>
<td>PRIVATE SECTOR BANKS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AXIS BANK</td>
<td>6.44</td>
<td>4.05</td>
<td>132.23</td>
<td>1.10</td>
<td>2.39</td>
<td></td>
</tr>
<tr>
<td>DEVE. CREDIT BANK</td>
<td>7.99</td>
<td>5.51</td>
<td>133.87</td>
<td>-0.89</td>
<td>2.48</td>
<td></td>
</tr>
<tr>
<td>HDFC BANK</td>
<td>7.48</td>
<td>3.63</td>
<td>127.38</td>
<td>1.36</td>
<td>3.86</td>
<td></td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>7.02</td>
<td>5.05</td>
<td>117.13</td>
<td>1.01</td>
<td>1.97</td>
<td></td>
</tr>
<tr>
<td>INDUSIND BANK</td>
<td>7.63</td>
<td>5.89</td>
<td>136.58</td>
<td>0.48</td>
<td>1.74</td>
<td></td>
</tr>
<tr>
<td>KOTAK MAHINDRA BANK</td>
<td>8.39</td>
<td>4.12</td>
<td>116.33</td>
<td>1.07</td>
<td>4.27</td>
<td></td>
</tr>
<tr>
<td>YES BANK</td>
<td>6.57</td>
<td>4.58</td>
<td>130.31</td>
<td>1.20</td>
<td>1.99</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>7.36</td>
<td>4.69</td>
<td>127.69</td>
<td>0.76</td>
<td>2.67</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Computed from Data Collected from Annual Report of Respective Banks 2005-06 to 2009-10).
Looking into the interest income to per unit of capital ratio (Table-6.3) we can see that average interest income to per unit of capital ratio is more than 1.07 times higher in new private sector banks under study as compared to public sector banks under study. Interest income to per unit of capital ratio for public sector banks shows an average of Rs. 6.85 crores. The average of interest income to per unit of capital ratio by BOB shows very good with Rs. 7.19 crores interest income to per unit of capital ratio among public sector banks. The performance in private sector banks regarding interest income to per unit of capital ratio shows excellent results during this period. The average of interest income to per unit of capital ratio in all private sector banks was Rs. 7.36 crores. The Kotak Mahindra Bank was at the highest with Rs. 8.39 crores among all selected banks under study. Thus, the productivity related to interest income to per unit of capital ratio was not remarkable in public sector banks as compared to private sector banks under study.

Average interest expenses to per unit of capital ratio is more than 1.07 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Interest expenses to per unit of capital ratio for public sector banks show an average of Rs. 4.38 crores. The average of interest expenses to per unit of capital ratio in all private sector banks was Rs. 4.69 crores. Thus, the productivity related to interest expenses to per unit of capital ratio was not remarkable in private sector banks as compared to public sector banks under study.

Average business per unit of capital ratio is more than 1.12 times higher in Public Sector Banks under study as compared to New Private Sector Banks under study. Business per unit of capital ratio for public sector banks shows an average of Rs. 143.41 crores. The average of business per unit of capital ratio by Dena bank shows very good with Rs. 147.09 crores among public sector banks. The performance in public sector banks regarding business per unit of capital ratio shows excellent results during this period. The average of business per unit of capital ratio in all private sector banks was Rs. 127.69 crores. The performance of, ICICI and Kotak Mahindra bank
was very poor in comparison to other selected private sector banks. Thus, the productivity related to business per unit of capital ratio was not remarkable in private sector banks as compared to public sector banks under study.

The ratio of productivity by net profit per unit of capital ratio shows how efficiently working in the market. With the analysis of productivity by net profit, the performance of private sector banks was not remarkable because the average productivity by net profit per unit of capital of private sector banks was only Rs. 0.76 crores per unit of capital. While the average of public sector banks unit was Rs. 0.85 crores per unit of capital which was more than 1.12 time higher than the private sector banks. In case of public sector banks, CBI and Dena bank were very poor in relation to this ratio and BOB, BOI, PNB, SBI and UBI were on and above the average. In case of private sector banks, DCB suffered heavy losses during the year 2005-06,2008-’09 and 2009-’10 showing a dangerous situation for the survival in the year to come. The average of HDFC bank was shows very good with Rs. 1.36 crores by net profit per unit of capital.

The average of productivity by Spread to per unit of capital in public sector banks was Rs. 2.47 crores and the average of private sector banks under study was Rs. 2.67 crores productivity by Spread to per unit of capital. Average spread ratio is more than 1.08 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. The Kotak Mahinda Bank was at the highest with Rs. 4.27 crores among all selected banks under study; they were excellent to this productivity as compared to public sector banks. Thus, the Overall performance related to capital productivity of public sector banks is excellent compared to the private sector banks.

5.5 The study uses ratio analysis to compare profitability of public sector banks and private sector banks. Profitability is an important criterion to evaluate the overall efficiency of a concern. Profitability can be defined as the ratio of
output to input for a specific production system. Profitability is the ability of a given investment to earn return from its use. To analysis the profitability of public sector banks and private sector banks we have considered profitability ratio during the period of 2005-'06 to 2009-'10.

**Analysis of Profitability of Bank:**

To analysis the profitability of selected Public Sector Banks and Private Sector Banks we have considered profitability ratios [Interest earned ratio, Interest paid ratio, Non-Interest Income ratio, Other operating expenses ratio, Spread ratio, Burden ratio and Profitability ratio] during the period of 2005-'06 to 2009-'10.

**Average Profitability Ratios:** The profitability is the most important indicator of overall financial performance. The level of efficiency, productivity, and cost effectiveness is reflected through the bank's profit figure. A high ratio indicates better profitability of banks and low ratio indicates lower profitability of banks.

**TABLE –6.4: Average Profitability Ratios** (Rs. in Crore)

<table>
<thead>
<tr>
<th>BANKS</th>
<th>RATIO</th>
<th>Interest earned ratio</th>
<th>Interest paid ratio</th>
<th>Non-Interest income ratio</th>
<th>Other operating expenses ratio</th>
<th>Spread ratio</th>
<th>Burden ratio</th>
<th>Profitability ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUBLIC SECTOR BANKS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANK OF BARODA</td>
<td>4.42</td>
<td>2.74</td>
<td>0.74</td>
<td>1.80</td>
<td>1.68</td>
<td>1.05</td>
<td>0.63</td>
<td></td>
</tr>
<tr>
<td>BANK OF INDIA</td>
<td>4.60</td>
<td>2.99</td>
<td>0.78</td>
<td>1.77</td>
<td>1.61</td>
<td>0.99</td>
<td>0.62</td>
<td></td>
</tr>
<tr>
<td>CENTRAL BANK OF INDIA</td>
<td>4.70</td>
<td>3.24</td>
<td>0.52</td>
<td>1.66</td>
<td>1.46</td>
<td>1.15</td>
<td>0.31</td>
<td></td>
</tr>
<tr>
<td>DENA BANK</td>
<td>4.69</td>
<td>3.07</td>
<td>0.85</td>
<td>1.97</td>
<td>1.62</td>
<td>1.12</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td>PUNJAB NATIONAL BANK</td>
<td>5.00</td>
<td>2.89</td>
<td>0.73</td>
<td>2.07</td>
<td>2.11</td>
<td>1.34</td>
<td>0.77</td>
<td></td>
</tr>
<tr>
<td>UNION BANK OF INDIA</td>
<td>4.91</td>
<td>3.20</td>
<td>0.61</td>
<td>1.66</td>
<td>1.71</td>
<td>1.05</td>
<td>0.66</td>
<td></td>
</tr>
<tr>
<td>STATE BANK OF INDIA</td>
<td>5.14</td>
<td>3.23</td>
<td>1.02</td>
<td>2.27</td>
<td>1.91</td>
<td>1.25</td>
<td>0.67</td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>4.78</td>
<td>3.05</td>
<td>0.75</td>
<td>1.89</td>
<td>1.73</td>
<td>1.14</td>
<td>0.59</td>
<td></td>
</tr>
<tr>
<td><strong>PRIVATE SECTOR BANKS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AXIS BANK</td>
<td>4.87</td>
<td>3.06</td>
<td>1.29</td>
<td>2.26</td>
<td>1.81</td>
<td>0.98</td>
<td>0.83</td>
<td></td>
</tr>
<tr>
<td>DEVE. CREDIT BANK</td>
<td>5.96</td>
<td>4.12</td>
<td>1.55</td>
<td>4.07</td>
<td>1.85</td>
<td>2.52</td>
<td>-0.67</td>
<td></td>
</tr>
<tr>
<td>HDFC BANK</td>
<td>5.87</td>
<td>2.84</td>
<td>1.35</td>
<td>3.31</td>
<td>3.03</td>
<td>1.96</td>
<td>1.07</td>
<td></td>
</tr>
<tr>
<td>ICICI BANK</td>
<td>6.04</td>
<td>4.34</td>
<td>1.78</td>
<td>2.61</td>
<td>1.70</td>
<td>0.83</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>INDUSIND BANK</td>
<td>5.59</td>
<td>4.31</td>
<td>0.97</td>
<td>1.90</td>
<td>1.28</td>
<td>0.93</td>
<td>0.35</td>
<td></td>
</tr>
<tr>
<td>KOTAK MAHINDRA BANK</td>
<td>7.25</td>
<td>3.57</td>
<td>1.11</td>
<td>3.88</td>
<td>3.69</td>
<td>2.77</td>
<td>0.91</td>
<td></td>
</tr>
<tr>
<td>YES BANK</td>
<td>5.05</td>
<td>3.52</td>
<td>1.51</td>
<td>2.12</td>
<td>1.53</td>
<td>0.61</td>
<td>0.92</td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>5.81</td>
<td>3.68</td>
<td>1.36</td>
<td>2.88</td>
<td>2.13</td>
<td>1.51</td>
<td>0.61</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Computed from Data Collected from Annual Report of Respective Banks 2005-06 to 2009-10).
Looking into the Interest earned ratio (Table-6.4) we can see that average Interest earned ratio is more than 1.22 times higher in new private sector banks under study as compared to public sector banks under study. Interest earned ratio for public sector banks shows an average of Rs. 4.78 crores. The average of interest earned ratio by SBI shows very good with Rs. 5.14 crores interest earned ratio among public sector banks. The performance in private sector banks regarding interest earned ratio shows excellent results during this period. The average of interest earned ratio in all private sector banks was Rs. 5.81 crores. The Kotak Mahindra Bank was at the highest with Rs. 7.25 crores among all selected banks under study. Thus, the productivity related to interest earned ratio was not remarkable in public sector banks as compared to private sector banks under study.

Average Interest paid ratio is more than 1.21 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Interest paid ratio for public sector banks show an average of Rs. 3.05 crores. The average of interest paid ratio in all private sector banks was Rs. 3.68 crores. Thus, the productivity related to interest paid ratio was not remarkable in private sector banks as compared to public sector banks under study.

Average Non-Interest income ratio is more than 1.81 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Non-Interest income ratio for public sector banks shows an average of Rs. 0.75 crores. The average of Non-Interest income ratio by SBI shows very good with Rs. 1.02 crores Non-Interest income ratio among public sector banks. The performance in private sector banks regarding Non-Interest income ratio shows excellent results during this period. The average of Non-Interest income ratio in all private sector banks was Rs. 1.36 crores. The ICICI Bank was at the highest with Rs. 1.78 crores among all selected banks under study. Thus, the productivity related to Non-Interest income ratio was not remarkable in public sector banks as compared to private sector banks under study.
Average other operating expenses ratio is more than 1.52 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Average other operating expenses ratio for public sector banks show an average of Rs. 1.89 crores. The average of other operating expenses ratio in all private sector banks was Rs. 2.88 crores. Thus, the productivity related to other operating expenses ratio was not remarkable in private sector banks as compared to public sector banks under study.

The average spread ratio of public sector banks was Rs. 1.73 crores and the average of private sector banks under study was Rs. 2.13 crores productivity by spread ratio. Average spread ratio is more than 1.23 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. The Kotak Mahinda Bank was at the highest with Rs. 3.69 crores among all selected banks under study; they were very good to this productivity as compared to public sector banks.

The average burden ratio of public sector banks was Rs. 1.14 crores and the average of private sector banks under study was Rs. 1.51 crores productivity by burden ratio. Average burden ratio is more than 1.32 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study.

The average profitability ratio of public sector banks was Rs. 0.59 crores and the average of private sector banks under study was Rs. 0.61 crores productivity by profitability ratio. Average profitability ratio is more than 1.32 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. Average profitability ratio is more than 1.03 times higher in new Private Sector Banks under study as compared to Public Sector Banks under study. In case of private sector banks, DCB suffered heavy losses during the year 2005-06,2008-’09 and 2009-‘10 showing a dangerous situation for the survival in the year to come. The average of HDFC bank was shows excellent with Rs. 1.07 crores by profitability ratio. The new private sector banks are very comfortably placed as compared to the
public sector banks. Thus, the overall performance related to profitability ratio of private sector banks is excellent compared to the public sector banks.

5.6 To conclude, it can be said that Indian Private Sector Banks productivity is much higher than that of Public Sector Banks. The performance in Private Sector Banks regarding productivity per employee and per branch shows excellent result during the study period. The capital productivity in New Private Sector Banks regarding interest earned per unit of capital and spread per unit of capital shows excellent result during the study period. The capital productivity related to interest expenses per unit of capital, Business per unit of capital and net profit per unit of capital was remarkable in Public Sector Banks. It is clear from the above analysis that the public sector banks are less profitable than the private sector banks in terms of overall profitability but their profitability is improving over the last 5 years.

**6.3 SUGGESTIONS:**

After studying the Productivity and Profitability Analysis concept, undertaking a preliminary investigation and careful observations as well as on the basis of the analysis and interpretations of the collected data, the researcher has found some suggestions emerge for consideration. On the basis of the study the following suggestions are given to the Public Sector Banks and Private Sector Banks to improve the profitability and raise their productivity:

**A. Productivity per Employee:**

A comparative study of public sector banks regard to productivity per employee, in public sector banks three banks viz, Central Bank of India, Punjab National Bank and State Bank of India have recorded worst performance. A critical review of the year-to-year performance of these three banks reveals that they have shown some improvement in successive years
under study. This in itself indicates that the banks have certain untapped potential which if properly oriented can result in a better performance. On the whole the entire group of public sector banks under review presents a dismal picture in terms of employee productivity. Similarly when the group of private sector banks is taken for comparison all the banks have fared well with the sole exception of Development credit Bank and Kotak Mahindra Bank Ltd. Hence the following suggestions are made to improve the situation:

➢ To improve productivity per employee, Public Sector Banks have to either improve deposit and advances rate of the branches or to decrease the number of employee by introducing VRS scheme again.

➢ The banks should adopt more aggressive marketing strategies in line with the new private sector banks to add to the business volumes both in terms of deposits as well as advances.

➢ The major asset of the banks being their human resources, they should be redeployed matching their skill sets and providing on the job training wherever necessary in order to derive optimum level of efficiency and productivity. Apparently there is a mismatch in the deployment of resources, which resulted in lower productivity.

➢ With numerous technological features coming into day to day banking resulting in diminishing reliance on men than the machines, the excess staff should be used for marketing bank’s products thereby increasing volumes in terms of credit as well as deposits.

➢ Productivity of labourers can be improved through internet banking and mobile banking so their time to explain each and every transaction to the customers has been saved and they can do their daily work. Now a day ATMs are time saver for banking transactions which adds points in increasing the productivity.

➢ In Public Sector Banks, low compensation is the biggest demotivator for the efficient employees. So it is suggested that the pay should be linked to individual performance, group performance and overall business result of the bank. Such a pay structure will motivate the employee.
B. Productivity per Branch:-

A comparative study of public sector banks regard to productivity per branch that the performance of Central bank of India and Dena bank is below average whereas SBI, BOB and BOI have registered above average performance. Similarly among the private sector banks, the performance of DCB, IndusInd Bank, KMB, and Axis Bank is below average while other banks have fared better. In respect to the average business per branch of public sector banks is way below that of the private sector banks. It is therefore safe to assume that the private sector banks have been implementing a well-defined strategy to perform exceedingly well. The following suggestions are made to improve the productivity per branch in relation to public sector banks.

➢ The productivity related to business per branch was not remarkable in Public Sector Banks. Public Sector Banks either should close down the unviable bank branches by selling out the existing business to some other bank which has been able to maintain a sustainable growth rate or increase the business volume at branches by adopting aggressive marketing strategies and by redeployment of employee wherever necessary.

➢ To improve productivity in the emerging competitive environment, bank should work towards transforming branches from transaction dispenses to relationship centers. The Public Sector Banks in particular can improve their productivity by managing some of the important elements in a rational way.

➢ There is a need to make some practical strategies for the Public Sector Banks to make them as much competitive as new Private Sector Banks.

➢ The men power of branches should be deployed in a proper way. If necessary re deployment and down-sizing of staff should be resorted to. Loss making branches with insignificant level of business should be closed or merge with profit making branch. Further branches should be
open at strategic location and business potential of that area should be explored by aggressive marketing and efficient customer service.

- Public Sector Banks are required to improve branch business activities. They should concentrate on operating activities of existing branches instead of increasing number of branches.

C. Productivity per unit of Capital:-

A comparative study of public sector banks regard to productivity per unit of capital, the capital productivity in New Private Sector Banks regarding interest earned per unit of capital and spread per unit of capital shows excellent result during the study period. The capital productivity related to interest expenses per unit of capital, Business per unit of capital and net profit per unit of capital was remarkable in Public Sector Banks. Hence the following suggestions are made to improve the situation:

- To improve productivity in the emerging competitive environment, bank should work towards transforming branches from transaction dispenses to relationship centers.
- The Public Sector Banks in particular can improve their productivity by managing some of the important elements in a rational way.
- There is a need to make some practical strategies for the Public Sector Banks to make them as much competitive as New Private Sector Banks.

D. Profitability:-

Profitability of private sector banks is higher as compared to public sector banks. As profitability is a dependent factor, it is affected by many other independent variables. Because the HDFC Bank, Kotak Mahindra bank and Yes bank have good position to control these factors, which affects the profitability, so they deserve to earn maximum. The banks were unable to make improvement in the profitability to the desired levels as an indicator of
efficient functioning of any organization run on commercial considerations. The position of private sector banks is also not impressive enough and among these banks the position of DCB Limited is scary to say the least. The following suggestions are made to retrieve the position for the banks under study.

➢ To improve profitability in the emerging competitive environment, bank should work towards transforming branches from transaction dispenses to relationship centers.

➢ The public sector banks in particular can improve their profitability by managing some of the important elements in a rational way.

➢ The banks should shed high cost deposits. The banks should strive for batter deposit mix there by reducing the cost of deposit and improve profitability.

➢ Profitability can be increased to a greater extent by improvement in utilization of manpower and increase in ancillary earning than due to increase in net interest earnings from the fund operations. Banks will have to develop special skills, knowledge and management capabilities in their staff for under taking none fund business. There is an urgent need for popularizing concept of profit planning at all levels especially, in branches creating an awareness that profitability should be the hall mark of each banking operation at all levels, would go a long way in improving profitability of banks.

➢ There is a need to make some practical strategies for the public sector banks to make them as much competitive as new private sector banks. To strengthen the position further, the public sector banks must strive to greatly enhance efficiency through a control over shrinking spread, increasing non-interest income, and maximizing business per employee and per branch, etc.

➢ High yielding advances should be aggressively marketed to improve earning / income. Cut down on wasteful expenditure.
- Strive for increasing fee-based income on services like issue of drafts, opening of letters of credit, issue of guarantees and other ancillary services. By adopting the above measures the spread will improve resulting in improved profitability.

- Technology upgradation, provision of better service quality, inculcating customer driven work culture, mental revolution among the staff of public sector banks, use of modern risk management practices are also the most sought after steps that are needed to ensure the sustainable level of profit and its growth.

### 6.4 OVERALL SUGGESTIONS:

- There was the lack of awareness about banking rules and regulation not only in the private sector and cooperative banks but at many of the small branches even in case of nationalized banks also. This may cause the further delay in the implementation of the transaction and which is ultimately converted into reduction of productivity and the business of banks. To remove this hurdle effective training programme should be arranged for educating the manager cadres or other employees who are concerned with the banking.

- Sometimes productivity can be affected due to higher amount of Labour turnover towards other sector and these can reduce only through satisfaction of employees of banks by financial and non-financial motives.

- If employees lack the requisite banking culture and fail to project the image of the bank in a proper way, productivity is bound to suffer. So banks should adopt means of increasing interest income by granting qualitative advances and widening their credit portfolio and increased other income.

- Commercial banks should be allowed to compete with financial institutions in extending term credit in clear manner.
Public Sector Banks should exercise some control over the volume and mix of credit portfolio within the limits of acquisition and deployment of funds.

Public Sector Banks should concentrate on intensive mobilization of deposits; it can be done only through improved customer services and by implementing a various attractive deposit mobilization schemes.

Public Sector Banks should bring operational efficiency and should diversify their activities into non-traditional banking activities. They should concentrate on non-interest income avenues. Diversification based on niches and core competences are more likely to be successful. The strategy of offering the right kinds of product in the right market for products rather than providing everything everywhere is important to achieve a competitive advantage.

Banks should develop the spirit of cost consciousness among its employees. It will also help in increasing the earnings. Better management information system, credit monitoring and cash management can result increase in productivity.

In Indian Public Sector Banks there is no clear cut placement and succession planning so in order to raise the productivity a well-defined succession plan will lead to smooth take over of important positions and it will result in a higher productivity.

Public Sector Banks are required to decrease no. of employees for improving income per employee and expenses per employee ratio. Public Sector Banks are also required to increase deposits and advances or decrease no. of employees and no. of branches for improving deposits per employee, advances per employee, deposits per branch and advances per branch ratios.

A separate cell at each district head quarter may be set up exclusively for recovery of bank dues. Government vehicles should also be provided for
the recovery and the recovery procedures should be simplified. The defaulters misusing the loans should be severely dealt with. The recommendation of the Narsimham Committee regarding setting up of an Asset Reconstruction Fund to take over from banks the bad and doubtful debts at a discount deserves to be implemented.\textsuperscript{156}

- The attitudes of bankers should be more customers oriented than procedure oriented. More flexible business hours, evening counters, bright and comfortable banking halls and well informed staff, information brochures and regular contacts, all of which will have to be given due attention to improve customer services.

- Appropriate use of technology for improvement the quality of customer service and ensuring efficiency in operations is crucial for the effective functioning of banks in emerging competitive environment. There is a need for improving and upgrading work technology to cope up with the growing volume of business transactions. The present program of branch computerization is largely confined to metropolitan and urban branches only. The feasibility of extending this facility to other growing banking centers has to be explored.\textsuperscript{157}

- The process of any reforms in banking system can not gather momentum without evolving reforms in the area of Human Resource Development. Overstaffing, over unionization and rigid frame work of promotions and transfers, also lack of effective leadership are the principal contributory factors to the disquieting trend in Personal Management. Thus, the policy should be redefined to making the employees committed to the

\textsuperscript{156} Ahuja Kanta (1996) Op. Cit p.27

\textsuperscript{157} Thingalaya N. K., “Banking Development in India since Independence” Printwell Publication, Jaipur 1985, p. 12.
organization and to the changes that are taking place and to face the future challenges as a cohesive team.

- Considering pros and cons of privatization, the case for privatizing Indian Banking seems to be strong. While privatization is theoretically the desired policy option. In reality, privatization of banks has proven to be difficult, making the end point unclear. The problem of political opposition of privatization has no short cut solution in a democracy and can only be solved over time through consensus building.\textsuperscript{158}

- The public sector banks should in consultation with the government of India formulate another VRS / CRS scheme to reduce the cost incurred on wages and thereby improve profitability.

- The developmental role of banking is constrained by the availability of infrastructure and activities of state agencies in the area. Therefore, merely pumping in of more credit by commercial banks will not automatically lead to development. However, if the state and other agencies evolve suitable schemes to enable people to involve them in productive activities, then the banks can step in and provide the credit that will be needed.\textsuperscript{159}

- Allowing the large scale entry of private banks to provide more meaningful competition could help to improve the performance of public sector banks, but it has the risk of forcing closure of weak public sector banks. The more viable option would therefore be to privatize at least same of the public sector banks.\textsuperscript{160} The new bank should be allowed to expand rapidly to increase competition for existing banks. The government must allow more

competition between banks and the cartel type activities of IBA should be ended.

- Allowing the large scale entry of private banks to provide more meaningful competition could help improve the performance of public sector banks, but it has the risk of forcing closure of weak public sector banks. The more viable option would therefore be to privatize at least some of the public sector bank.

- Now a day ATMs are time saver for banking transactions which adds points in increasing the productivity.

- Nationalized banks should not be under any informal or formal requirements of prior permission from any one before opening or closing a branch, even closing a branch in rural areas. Creating a more competitive environment by greater access to foreign market raises more difficult questions. Even, internally, less hesitant attitude towards free competition would be welcome. Each bank should be responsible for its own recruitment including clerical recruitment and for all its policies, whether credit or personnel or any other. Once carefully selected and found successful bank chairman and senior staff should be continued in their job in the same bank as long as possible without being worried about silly retirement rules. Performance bonuses to senior management and indeed to all staff should be given as decided by individual. Boards of directors once selected, board members should also have long tenure with changes mode by the chief executives in consultation with other directors as and when necessary and not at behest of the Government.\footnote{Patel I.G. (1994) “Some Reflections on Financial Liberalization” Punjab National Bank, New Review, January-March p.46}
FUTURE AREAS OF THE STUDY:

- There is a wide scope for further areas of the study. The research study of selected Banking units with reference to India in productivity analysis in future thus kind of various aspects related research activities implemented.

- The present study examines the productivity and profitability of public sector banks and private sector banks only. In future, researchers may study the productivity and profitability of foreign banks already operating in India.

- In future, researchers may have a better idea of productivity by taking into account various qualitative measures such as motivation of employees, customer satisfaction and image of the bank etc.

- This study does not cover banking sector reforms, labour sector reform, financial sector reforms, foreign trade sector reforms, educational reforms, etc. Several changes are taking place in Indian economy after post globalization period, so it becomes very interesting to know the impacts of globalization on Indian economy during this period of time.

- Researchers may find out the major determinants, of bank productivity and profitability, in the context of changed business environment.

6.5 CONCLUSION:

The efficiency and productivity of employee may influence the business and if the funds are used efficiently with the help of higher productivity of personnel then it will lead to higher profitability. In order to increase per employee business, Banks should train their personnel accordingly, motivate them, and make them customer oriented. Second option is to reduce the size of men power by Voluntary Retirement Scheme (VRS) and Early Retirement scheme (ERS) and reset to out sourcing of some of the functions of the bank. The competition
for market share is increasing the pressure on profitability and forcing banks to trim costs, particularly transaction costs and improve overall efficiency. Various schemes of financial assistance for capital restructuring of the economically weak public sector banks were also introduced during last decade. The economic liberalization measures introduced by the Indian government coupled with trends towards globalization have substantially altered the banking sector and the profitability of public sector banks has declined to a large extent. So Public Sector Banks will have to introduce new financial instruments and innovations in order to remain in business.

The banking system has failed to gain internal strength and the decline in efficiency, productivity and profitability has resulted in deteriorating the financial health of the sector. The ability of banks to face competition will depend on their determined efforts at technological up gradation and improvement in operational and managerial efficiency, improvement in customer service, internal control, house-keeping and augmenting productivity and profitability.

In today’s competitive era, banks need to have a strategy backed by management and organization and supported by skilled committed personnel. Under the competitive environment, the focus is on profitability and trim balance sheets. Hence, banks will need to increase fee business, concentrating on areas like guarantees, safe deposit lockers, investment advisory services, drafts and remittances. The forces of deregulation, technology and growing customer sophistication are broadly likely to have an impact in India. But Indian bankers can eventually expect to face an environment marked by growing competition, pressure on margins and increased risks. Indian banks do not show the characteristics of efficient competitors in the banking markets, the better managed institutions will soon be making significantly progress in this sector. In the wake of liberalization banks will also have to pay great attention to strategic management, strategic planning and to greater specialization in the technical

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aspects of lending and credit evaluation. The Indian banks are decades behind the West and Japan and the newly industrialized in computerization and mechanization.

The man power employed in banks could not cope with this work load due to ineffective work technology and growing culture of work avoidance. This resulted in poor customer service, increase in frauds, large number of branches making losses and showing signs of stagnancy or unsatisfactory performance, etc. The rapid expansion of bank braches and spectacular increase in banking operations unaccompanied by proper training of staff and adoption of modern techniques of banking resulted in deteriorating customer services. Banks’ productivity had been reduced due to hike in wages and increasing operational cost in banks. Interest spread of banks was also under pressure due to administered rates imposed on the banking system. In order to identify appropriate competitive strategies, Public Sector Banks will have to make a careful study of the market and segment customers into various categories based on their expectations, the extent of competition, customer profitability etc.

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